**Strategic Cost Management**

**September 2021 Examination**

**1. Magnificent Masks is a start up manufacturing embroidered masks for the local market and eventually plan to export to the UAE and Gulf countries. The CEO Shivam Mehra has big plans for the future. He needs to plan ahead and prepare the Budget for the coming year. He hires you as a Management consultant and wants to understand the concept of Fixed Budget, Flexible Budget etc**

**Please explain to him the difference between the Fixed and Flexible budget.**

**Which one should Magnificent Masks adopt and why? (Explain giving any 2points) Also, please explain to the Management the different types of Operating budgets that they will need to implement (Any3)** **(10Marks)**

**Ans 1.**

**Introduction:**

Generally speaking, a budget can be defined as revenue estimates and costs for a given period. The process of preparing budgets is known as budgeting. Every organization creates several budgets, including sales budget, buy budget, cash budget, costs budget, etc. Preparing a budget is essential for forecasting the future performance of a company's operations. Aside from that, it is possible to determine the difference between the actual performance and the intended performance. If the actual performance is unfavorable compared to the intended performance, Its Half solved only

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**2. “Elegant Shoes” manufactures 5 varieties of shoes and sandals. While the company is profitable on an overall basis, 1 variant of kids sandals is a loss making product but the Product Manager’s performance gets over looked because of overall profitability. As a management Consultant, you need to explain to the Top Team the importance/ objectives of correct pricing of a product. Also, please share with them the features, advantages and disadvantages of any two types of short term pricing strategies (10Marks**

**Ans 2.**

**Introduction:**

The cost or the price may be referred to by several terms, such as cargo, fares, permit expenditure, educational expense, and proficiency charge, and so on. However, pricing refers only to the amount of money that customers are expected to pay for a product or service in a business context. Put another way, and a price is a proposal or an offer to sell something for a specified quantity of money. Product pricing, on the other hand, is distinct from the cost of the

**3.Kid Shoe Company produces its famous shoe, the Kiddy Loafer that sells for Rs 700/per pair. Operating income for 2020-21 is as follows:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Sales Revenue(Rs700/-per pair)** |  |  |  | **35,00,000** |
| **Variable cost(Rs300/-per pair** |  |  |  | **15,00,000** |
| **Contribution Margin** |  |  |  | **20,00,000** |
| **Fixed Cost** |  |  |  | **10,00,000** |
| **Operating Income** |  |  |  | **10,00,000** |

**Kids Shoe Company would like to increase its profitability over the next year by at least 20%**

**To do so, the company is considering the following options:**

|  |
| --- |
| **A - Replace a portion of its variable cost with an automated machining process This would result in a 20% decrease in variable cost but a 15% increase in Fixed costs. Sales would remain the same.** |
| **B - Spend Rs 2,50,000/- on a new advertising campaign which would increase sales by 10%**  |
| **C - Increase both, selling price by Rs100 per unit and variable costs by Rs 80/- per unit by using a higher quality leather material in the production of its shoes. The higher price shoe would cause demand to drop by 20% approximately** |
| **D - Add a second manufacturing facility that would double company's fixed cost but increase sales by 60%** |

**a. You need to do a Cost Volume Price sensitivity analysis and evaluate all the options being considered by the Company (5Marks)**

**Ans 3a.**

**Introduction:**

With any change in the model's variables, such as fixed costs, variable costs, sales price, and so on, the sensitivity analysis indicates how the model will change. The primary focus is on determining how changes in variables will affect the profit or how sensitive the operational profit is to changes in the cost and volume of a product.

**b. Evaluate the options being considered by the company. (5Marks)**

**i) Do any of the options meet or exceed the company’s target of 20% operating profit**

**ii) What is the best course of action forth E Company?**

**Ans 3b.**

**Introduction:**

Any company's fundamental goal is to maximize its profits at any cost. On the other hand, profit is not an alone component, and a variety of different elements influences it. The CVP model takes these variables into account, and the sensitivity analysis helps evaluate how much of an